

AMENDED IN SENATE APRIL 15, 2013

**SENATE BILL**

**No. 774**

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**Introduced by Senator Walters**

February 22, 2013

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An act to *amend Section 22890 of, and to add Article 7.5 (commencing with Section 22889.1) to Chapter 2 of Part 5 of Division 5 of Title 2 of Sections 22874.3, 22875.3, and 22910.2 to, the Government Code, relating to retirement.*

LEGISLATIVE COUNSEL'S DIGEST

SB 774, as amended, Walters. State employees: postemployment benefits.

*The Public Employees' Medical and Hospital Care Act (PEMHCA), which is administered by the Board of Administration of the Public Employees' Retirement System, establishes provisions governing postemployment health care benefits for certain retired public employees and their families, upon meeting vesting requirements and subject to various limitations. Existing law provides that a represented state employee first hired on or after January 1, 1989, shall not be vested for the full employer contribution payable for annuitants unless he or she has 20 years of credited state service, as defined, at the time of retirement, as specified.*

*This bill would prohibit a state employer, as defined, for employees first hired on or after January 1, 2015, from providing postemployment health care benefits on behalf of its employees unless it fully funds those benefits, as determined by an actuary. This bill would also prohibit a public employer, for employees first hired on or after January 1, 2015, from entering into a memorandum of understanding or other collective bargaining agreement that provides for defined postemployment health*

*care benefits for which a state employee may opt in unless each employee pays at least 50% of the actuarially required contributions to fund those health care benefits. This bill would additionally provide that, for state employees who become members of the system on and after January 1, 2015, the employer share of contribution for these benefits is 50% after 15 years of credited state service and would increase that percentage by 5% for each year of credit state service up to 100% after 25 years of credited state service.*

~~The Public Employees' Medical and Hospital Care Act authorizes the Board of Administration of the Public Employees' Retirement System to contract with carriers for health benefit plans and major medical plans for employees and annuitants, as defined, and approve other specified plans.~~

~~This bill would require the Board of Administration of the Public Employees' Retirement System to develop a comprehensive plan, pursuant to specified criteria, to restructure health and other postretirement benefits, exclusive of pension benefits, for new state employees hired on or after January 1, 2015. Specified elements of the plan to be developed by the board include prefunding methods and contribution requirements, new employee vesting requirements, and employee benefit and participation options.~~

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

- 1     *SECTION 1. Section 22874.3 is added to the Government Code,*
- 2     *to read:*
- 3     *22874.3. (a) Notwithstanding any other law, for employees*
- 4     *first hired on or after January 1, 2015, a state employer shall not*
- 5     *enter into a memorandum of understanding or other collective*
- 6     *bargaining agreement that provides for defined postemployment*
- 7     *health care benefits for which a state employee may opt in unless*
- 8     *each employee pays at least 50 percent of the actuarially required*
- 9     *contributions to fund those health care benefits.*
- 10    *(b) If the provisions of this section are in conflict with the*
- 11    *provisions of a memorandum of understanding or other collective*
- 12    *bargaining agreement, the memorandum of understanding or other*
- 13    *collective bargaining agreement shall be controlling, except upon*
- 14    *expiration of the memorandum of understanding or other collective*

*bargaining agreement, this section shall be controlling and may not be superseded by a subsequent memorandum of understanding or other collective bargaining agreement.*

*(c) For purposes of this section, the following definitions apply:*

*(1) "State employee" means an officer, including those elected or appointed, or an employee of a state employer.*

*(2) "State employer" means the state and every state entity.*

*"State employer" shall not include the University of California.*

*SEC. 2. Section 22875.3 is added to the Government Code, to read:*

*22875.3. (a) Notwithstanding Sections 22870, 22871, 22873, and 22874, a state employee, defined by subdivision (c) of Section 3513, who is employed by the state for the first time, who becomes a state member of the system on or after January 1, 2015, shall not receive any portion of the employer contribution payable for annuitants unless the person is credited with 15 years of state service at the time of retirement.*

*(b) The percentage of the employer contribution payable for postretirement health benefits for an employee subject to this section shall be based on the completed years of credited state service at retirement as shown in the following table:*

<i>Credited Years of Service</i>	<i>Percentage of Employer Contribution</i>
<i>15</i>	<i>50</i>
<i>16</i>	<i>55</i>
<i>17</i>	<i>60</i>
<i>18</i>	<i>65</i>
<i>19</i>	<i>70</i>
<i>20</i>	<i>75</i>
<i>21</i>	<i>80</i>
<i>22</i>	<i>85</i>
<i>23</i>	<i>90</i>
<i>24</i>	<i>95</i>
<i>25 or more</i>	<i>100</i>

*(c) This section shall apply only to state employees that retire for service. For purposes of this section, "state service" means service rendered as an employee of the state or an appointed or elected officer of the state for compensation. Notwithstanding*

1 *Section 22826, for purposes of this section, credited state service*  
2 *includes service to the state for which the employee, pursuant to*  
3 *Section 20281.5, did not receive credit.*

4 *(d) This section does not apply to employees of the California*  
5 *State University, the judicial branch, or the Legislature.*

6 *SEC. 3. Section 22890 of the Government Code is amended to*  
7 *read:*

8 22890. (a) The contracting agency and each employee or  
9 annuitant shall contribute a portion of the cost of providing the  
10 benefit coverage afforded under the health benefit plan approved  
11 or maintained by the board in which the employee or annuitant  
12 may be enrolled.

13 (b) An annuitant is entitled to only one employer contribution.  
14 If more than one annuitant is receiving an allowance as the survivor  
15 of the same employee or annuitant, there shall be only one  
16 employer contribution with respect to all such annuitants.

17 (c) The contribution of each employee and annuitant shall be  
18 the total cost per month of the benefit coverage afforded him or  
19 her under the health benefit plan or plans in which he or she is  
20 enrolled less the portion thereof to be contributed by the employer.  
21 The employer contribution for each employee and annuitant shall  
22 commence on the effective date of enrollment.

23 *(d) The formulas for contributors pursuant to this article are*  
24 *subject to the prefunding requirements in Section 22874.3.*

25 *SEC. 4. Section 22910.2 is added to the Government Code, to*  
26 *read:*

27 22910.2. (a) *Notwithstanding any other law, for employees*  
28 *first hired on or after January 1, 2015, a state employer shall not*  
29 *provide postemployment health care benefits on behalf of its*  
30 *employees, unless it fully funds these benefits, as determined by*  
31 *an actuary.*

32 *(b) For purposes of this section, “state employer” means the*  
33 *state and every state entity. “State employer” shall not include*  
34 *the University of California.*

35 ~~SECTION 1. Article 7.5 (commencing with Section 22889.1)~~  
36 ~~is added to Chapter 2 of Part 5 of Division 5 of Title 2 of the~~  
37 ~~Government Code, to read:~~

Article 7.5. ~~Other Postemployment Benefits~~

~~22889.1. The Legislature finds and declares:~~

~~(a) The purpose of this article is to reform the way the State of California funds and offers other postemployment benefits, including retiree health care, to new state employees hired on or after January 1, 2015.~~

~~(b) If the state wants to offer lifetime retiree health benefits to new employees, it will be necessary to prefund those benefits actuarially, similar to how pensions are funded.~~

~~(c) State employees should have options for the use of the contributions made by the employer and employee for postemployment health benefits.~~

~~22889.2. (a) The Board of Administration of the Public Employees' Retirement System (board) shall develop a comprehensive plan to restructure health and other postretirement benefits, exclusive of pension benefits, for new state employees hired on or after January 1, 2015, that incorporates the following concepts:~~

~~(1) A method for the state to prefund, as that term is defined in Section 22781, postemployment benefits for new state employees.~~

~~(2) A method for determining, using actuarial methods, the value of a new state employee's health care benefits at any given point during the employee's working years.~~

~~(3) The state shall be required to contribute 50 percent of the normal cost rate for these benefits during the new state employee's working years.~~

~~(4) A new state employee shall be required to have 20 years of credited state service to be eligible for lifetime health care benefits.~~

~~(5) A new state employee who does not have 20 years of state service credit prior to retiring shall have the total of all contributions made by the employer and the employee, together with interest accrued, placed in a retiree health care savings account upon the employee's retirement, for the benefit of the employee.~~

~~(6) The state shall create and the board shall administer, a system of retiree health care savings accounts for those new state employees subject to this article that do not receive lifetime health benefits.~~

~~(7) A new state employee shall have the following options:~~

1     ~~(A) Receive lifetime retiree health benefits, upon 20 years of~~  
2     ~~state service credit, if they contribute 50 percent of the normal cost~~  
3     ~~rate during their working years.~~

4     ~~(B) Not to contribute to a state-sponsored health care benefits~~  
5     ~~plan and to elect instead to be placed in a defined contribution plan~~  
6     ~~under which the state contributes a percentage of the employee's~~  
7     ~~compensation into a retiree health savings account during the~~  
8     ~~employee's working years, which will be available for the~~  
9     ~~employee when he or she retires and the use of which is regulated~~  
10    ~~by federal law.~~

11    ~~(C) Opt out of contributing to or receiving postemployment~~  
12    ~~health care benefits entirely in exchange for slightly higher~~  
13    ~~compensation, as is allowed in current law.~~

14    ~~(b) The board shall submit to the Legislature, by September 1,~~  
15    ~~2014, a report containing the comprehensive plan required by this~~  
16    ~~section. This report shall not be subject to the requirements of~~  
17    ~~Section 9795.~~